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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 000070

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SUBJECT: KURDISTAN PRESIDENT DISCUSSES OIL REVENUE SHARING,
PRIVATE SECTOR DEVELOPMENT, RECONSTRUCTION AID

REF: BAGHDAD 0053

(U) Classified by RRT Coordinator James Yellin, reasons 1.4
(b) and (d).

¶1. This message is from the Iraqi Kurdistan Regional
Reconstruction Team (RRT).

¶2. (C) Summary: Kurdistan Regional Government (KRG)
President Massoud Barzani told the Regional Coordinator on
December 29 that he had not reached an agreement on
contracting details in his talks over oil-revenue sharing in
Baghdad during the previous week. Barzani pledged that the
KRG would not pursue its hydrocarbons law until the Iraqi
central government had passed its own, and agreed that the
KRG law should be in harmony with the national law.
(Comment: In previous discussions, KRG Minister of Natural
Resources Ashti Hawrami stated that if the central government
did not make further progress on a national law, the KRG
would continue to pursue passage of a regional hydrocarbon
law, which has already been presented to the Kurdistan
National Assembly (KNA). If a regional hydrocarbon law was
passed, Hawrami said that the KRG would worry about
harmonizing the two laws later. End Comment.)

¶3. (C) Regional Coordinator also told Barzani that the
private sector needed to be the primary engine of economic
growth and that American investors want to see a more
transparent legal and regulatory framework for the economy.
Barzani complained that not enough of the U. S.
reconstruction aid money had reached the Kurdistan Region.
End Summary.

Private Sector Development

¶4. (C) As reported in reftel, Regional Coordinator and RRT
Officers met with KRG President Barzani on December 29 at his
palace in Salah ad-Din. In addition to raising previously
reported political issues, Regional Coordinator told Barzani
that in our view the private sector should be the primary
engine for growth in the Kurdistan Region. Regional
Coordinator said that foreign investors want to see a more
transparent legal and regulatory framework, and that the U.
¶5. would continue to offer technical assistance to help the
KRG establish it.

¶5. (C) Barzani agreed that the KRG could do more to open
its economy. He gave two examples of the region,s
commitment to free market policies for foreign investors: a
recently passed regional investment law that permits foreign
ownership of land and businesses in the Kurdistan Region, and
the creation of a new Kurdistan Region Investment Board
(KRIB) to facilitate the privatization of the 20 remaining
state-owned enterprises in the region. (Note: According to
the Kurdistan Investment Law, the Investment Board,s primary

function is to attract investors and create investment strategies and policies. The law does not mention a specific role in privatizing the state-owned enterprises. End Note.)

Little Reconstruction Aid for Kurds, Barzani Claims

¶16. (C) Barzani complained that billions of dollars in reconstruction aid had been spent in Iraq, with very little reaching the Kurdistan Region. He said, "we feel that you have left your friends behind.8 Regional Coordinator responded that U. S. assistance in the region was funded and would continue, including technical assistance for developing legal and regulatory frameworks, capacity building programs, and training for senior civil servants. (Note: Embassy recently briefed KRG PM Nechirvan Barzani, who had made the same complaint, on USG aid and reconstruction efforts in the KRG. End Note.)

Possible Compromise on Oil Contracting Authority

¶17. (C) Regional Coordinator told Barzani that the KRG hydrocarbon law should be in harmony with the national law and asked if Barzani had reached a compromise with Iraqi Prime Minister Nuri al-Maliki on contracting procedures during their discussions of oil-revenue sharing. Barzani did not say if he had discussed the issue directly with Maliki. He said that KRG Prime Minister Nechirvan Barzani and KRG Minister of Natural Resources Ashti Hawrami had taken the lead in the negotiations in Baghdad. (Note: KRG PM Nechirvan Barzani has had discussions on the issue with PM Maliki. End Note.)

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¶18. (C) According to President Barzani, Baghdad and KRG officials are close to announcing an agreement that will allow the KRG to negotiate freely with firms for exploration and development within its region. However, a representative of the central government will be &involved8 in the negotiations. As a final step, Barzani said, contracts should be presented to the Federal Petroleum Committee (FPC) of the central government before they are made official. (Note: President Barzani's description of the contracting arrangement that has been nearly agreed upon is consistent with what was told to Emboffs by Deputy Prime Minister Barham Salih at a meeting in Baghdad on December 18. End Note.) He added Kurdistan &will not be at the mercy of Baghdad8 in the oil-revenue sharing arrangement.

¶19. (C) Barzani agreed with the Regional Coordinator that the KRG hydrocarbons law should be in harmony with the national law and said the KRG would wait to take action on its law until Baghdad had made an announcement that political agreement has been reached on a draft national hydrocarbon law. He pledged that the law would be debated in the Kurdistan National Assembly (KNA).
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